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ABSTRACT

Reported is a demonstration of the use of basic economic principles to aid local governments in decision making. The problem analyzed in this study is the possible acquisition and development of a golf course by the City of San Buenaventura, California. Three purchasing alternatives and several financing options are examined. Researchers conclude that the most favorable option appears to be purchase and multiple-use recreational development of the property by the City, with additional county, state, and federal assistance. (Author/WB)

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PUBLIC PARK ACQUISITION:

The Saticoy Golf Course

William Lee

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PUBLIC PARK ACQUISITION:

The Saticoy Golf Course

by

William Lee

Research Reports in Public Policy

Number 1

Urban Economics Program
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Santa Barbara, CA 93106

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PREFACE

The Urban Economics Program at the University of California, Santa Barbara, was initiated in 1972 as a program of graduate studies in Economics leading to the M.A. degree. This series of research reports is made possible with the support of National Science Foundation grant No. HES 75-10322-A01.

Students in the program are trained in the latest economic concepts and techniques, with emphasis upon application to public policy analysis. These skills are made available to public agencies through student internships, formal Research Reports in Public Policy, and subsequent public employment.

The reports in this series are based upon research conducted by students, usually during the internship period. The purpose of this series is to introduce public agencies and other interested parties to the capabilities of policy analysis techniques. Any conclusions, recommendations or interpretations found in these reports are the responsibility of the authors and do not necessarily reflect the views of the National Science Foundation, the University of California, Santa Barbara, or the Urban Economics Program.

Robert Deacon
W. Douglas Morgan
Program Director

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Chapter 1

INTRODUCTION

There are two main objectives of this study. The first objective is to determine whether or not the City of San Buenaventura should acquire the Saticoy Public Links. Although the content of the study is specific to San Buenaventura and the Saticoy Public Links, the techniques of analysis used in this study are widely applicable for use by other local governments. Furthermore, the decision to acquire a golf course is similar to other decisions faced by local governments. Therefore the second objective of this study is to demonstrate the use of basic economic principles to aid the local public sector in decision-making.

After a brief chapter dealing with the background of the project and a description of the site, Chapter 3 examines three different purchasing alternatives available to the city: purchase for development as a municipal golf course, development by the private market, and finally, development of the site for use in parks and recreation. The next chapter examines in greater detail the third alternative of developing the site for parks and recreation. Following this is a discussion of the possible methods of financing the project. The body of the report closes with a chapter stating the conclusions of the study. Appendices on the concept of present value and miscellaneous recommendations are also included.

Chapter 2

BACKGROUND

The City of San Buenaventura has been considering the acquisition of the buildings and property of the nine hole Saticoy Public Links for some time. As far back as 1964, when the Saticoy Country Club decided to change locations to Camarillo and expand their operation, the City's general plan showed approximately half of what is now the Saticoy Public Links area as a park. As recently as February 8, 1972 the former Assistant to the City Manager recommended the following alternatives:

1. Retain 30 acres for a community park and sell the remaining 40 acres.
2. Retain the entire 70 acres and redevelop into a community park (20 acres), a swim park (8 acres), and an executive golf course (42 acres).

This study was commissioned by the city to analyze, in full detail, the feasibility of acquiring the Saticoy Public Links from its present owner.

The Saticoy Golf Course encompasses a 68 acre rectangle approximately 2500 feet by 1200 feet. It is located in the rapidly growing east end of Ventura, one block south of the Santa Paula Freeway. There are minor variations in terrain, but all the property is either level or gently rolling. The climate found on the golf course and in the surrounding area has been described as the warmest and most inviting in Ventura.

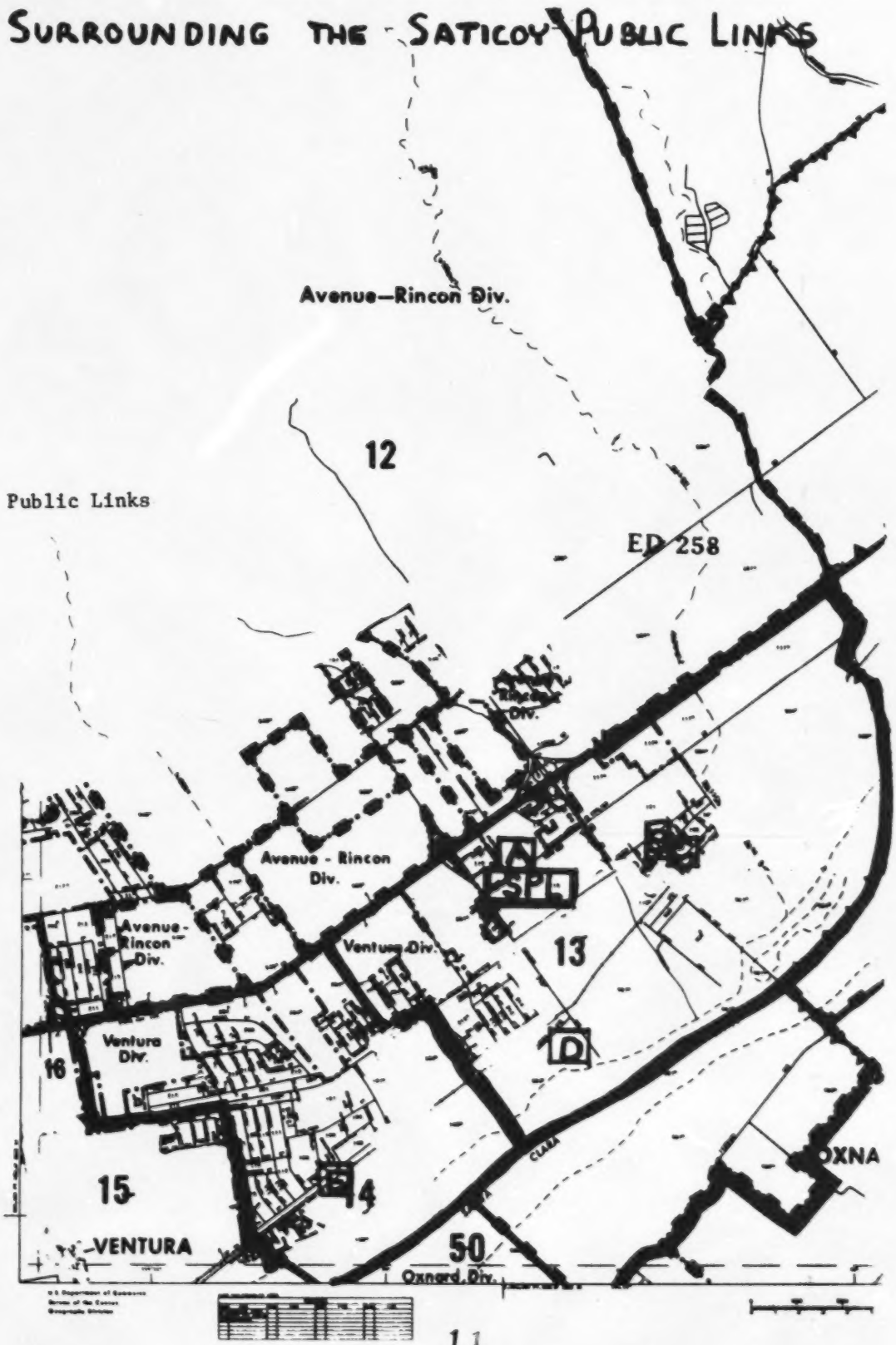
The main buildings on the site cover more than 10,000 square feet. They consist of a lounge, dining and ballroom, cocktail room and bar, large card room, snack bar, kitchen, locker rooms and apartments, and swimming pool. The structures and swimming pool are presently in need of extensive repair.

Although the sprinkler system and electricl system need repair, the golf course itself appears to be fairly well maintained and functional.

The sale price of the property and improvements is $985,000 or $14,500 per acre which, according to the County Tax Assessor, approximates the market value of similar property in the area. The property is zoned R-1-7, which allows medium density housing of about five units per acre. In 1972, the population in the surrounding area (Census Tracts 13 and 14, see Figure 1) was 10,400 and had been growing at over five percent per year since 1970.

Figure 1

Location of Census Tracts and Facilities Surrounding the Saticoy Public Links



Chapter 3

PURCHASING ALTERNATIVES

This study focuses upon three alternative development options for the Saticoy Public Links: City operation as a municipal golf course; development of the property as a public recreational area; or no public action in which case the property could be developed by private interests. The physical attributes of the property and earlier preliminary studies indicated that these three options represented the most likely future uses of the site.

The flow chart (Figure 2) is self-explanatory. By following along from top to bottom the reader can visualize the decision-making process the city follows in determining the feasibility of the acquisition.

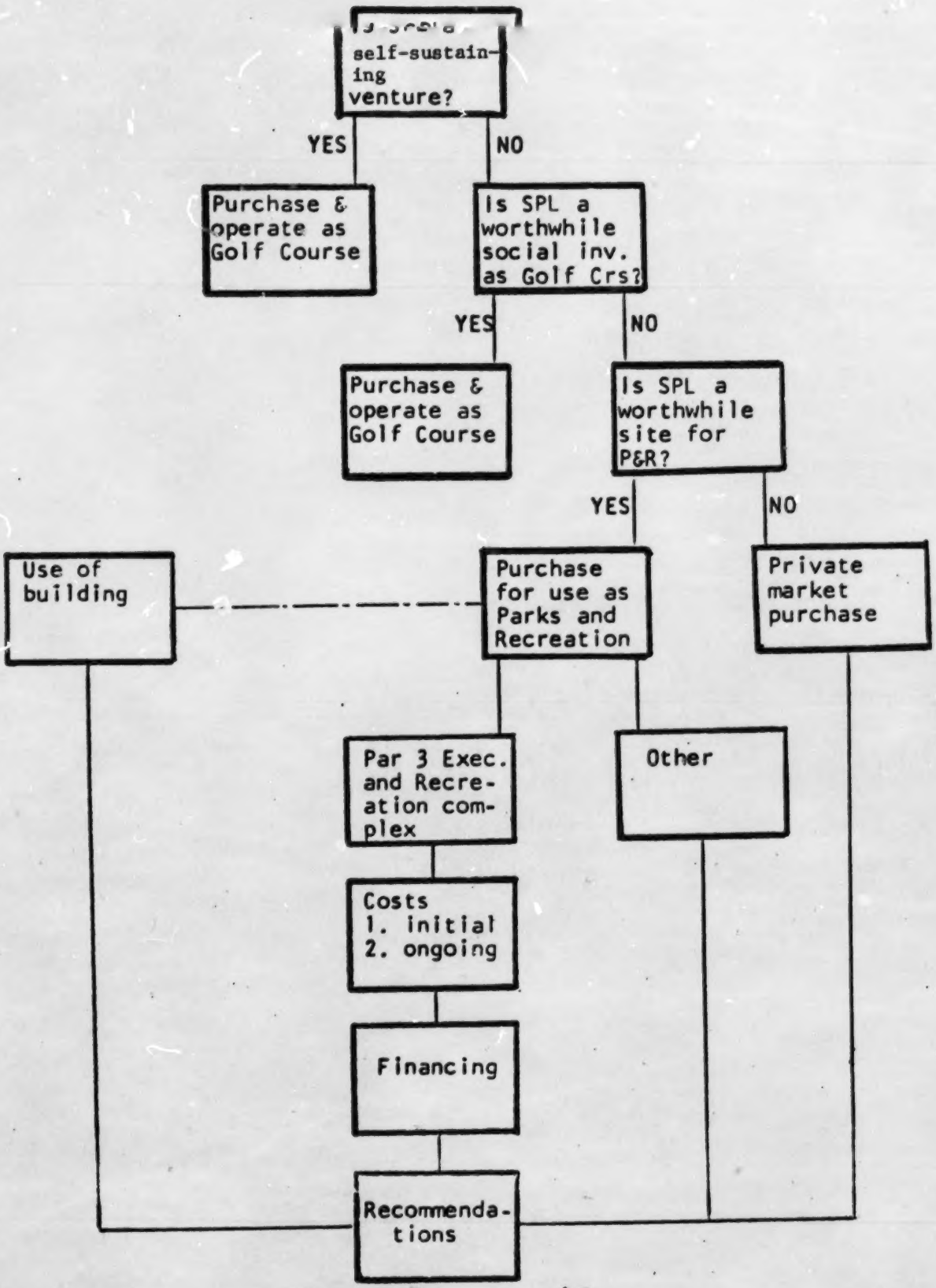
A. Development as a Municipal Golf Course

The first question posed is whether or not operation of the Saticoy Public Links as a municipal golf course would be a self supporting venture. To answer this, the cost of the investment must be weighed against expected returns.

The rent being paid on the property by the current lessee is $52,000 per year. According to the County Tax Assessor, the owner pays approximately $22,000 in taxes to the City, County and special districts for a net return of $30,000 per year. If, instead, the City owned the site there is no reason to expect that this rent would change. However, the City would not have to pay taxes. Subtracting the foregone tax revenue to the City of about $4,000, the City could then expect a return on its investment of $48,000 per year. The question that now arises is what investment today would be equivalent to an income stream of $48,000 per year. Using a rule of thumb estimate of 10%

DECISION FLOW CHART

Figure 2



rate of return for perpetuity, the original investment should be no more than $480,000. To add a little sophistication, assume that the life of the golf course is 30 years, and the rate of return on alternative investments range from 6% - 10%.[1] Table 1 shows the imputed value of a return of $48,000 per year for 30 years at alternative interest rates.

Table 1

	6%	7%	8%	9%	10%
30 years	$660,720	$595,632	$540,384	$493,152	$452,496

Source: Essentials of Managerial Finance Webon, Bringham, p. 574.

It can be seen that even with the lowest opportunity cost of 6% the most a profit seeking entrepeneur would be willing to invest is $660,720; if a more realistic alternative rate of return is taken, like 10%, the investor would only be willing to invest $452,496. This range could be thought of as the imputed value of the site as its use as a golf course. Considering the purchase price of $985,000 this alternative does not appear to be financially attractive.

Another alternative is city ownership and city operation of the property as a municipal golf course. To assess this possibility, financial data furnished by the present owner were used (Table 2, Col. 1). An attempt was made to project what would happen if the City operated the golf course in the same way they operate the two existing City courses at Montalvo and Olivas. Column 2 of Table 3 is a pro forma income statement with City operation.

The major differences between the two income statements are:

1. The City would most likely get the bulk of its revenues from green fees as they do at the other two courses and the remainder from the pro shop concession.[2]
2. The City would not have to pay rent.

Table 2

Saticoy Golf Course Operation
Six Months Ending 6-30-72
And Pro Forma City Operation

	1 Saticoy Golf Course	2 City Ownership*
Revenues		
Green Fees	$ 35,107	$ 35,107
Rentals	2,088	146
Carts	9,438	661
Merchandise	16,283	1,140
Food	18,217	911
Bar	24,786	1,983
	$105,919	$39,948
Costs		
Purchases	$ 38,043	$ -0-
GROSS INCOME	$ 67,876	$ 39,948
Expenditures		
Rent	$ 26,500	$ -0-
Wages	$ 23,260	$ 23,260
Other	$ 21,248	$ 21,248
NET INCOME (LOSS)	$ (3,132)	$ (4,560)

*Assuming Similar Agreement As With Present Courses
(Green fees plus 7% commission on gross revenues from pro shop and concessions)

Excluding [illegible] take a profit m[illegible]king venture by owning and/or operating another golf course, it should do so [illegible] elsewhere for the following reasons:

1. If the [illegible]ity operated the course itself, it would realize a smaller return [illegible]han leasing the operation to a private party.
2. Given th[illegible]e data on the present operation, the City would probably have a diffi[illegible]ult time finding a lessee to pay the current rent of $52,000 per yea[illegible].
3. Both 1 a[illegible]nd 2 above fall far short of an adequate return on an investment of $985[illegible]000. If these funds were available to the city for investment purpose[illegible], it could purchase a government bond and earn a greater return w[illegible]ith virtually no risk.

If not as a self supporting venture, the City should purchase the Saticoy Golf Course only if the social value of another course exceeds its cost. Table 3 displays summary figures for rounds played on the two existing City-owned courses.

Table 3

Comparison of Golf Rounds Played on San Buenaventura Courses by Fiscal Year

	1967-68	1968-69*	1969-70*	1970-71*	1971-72	1972-73
Buenaventura	73,178	59,381	85,813	80,553	75,772	77,749
Olivas	51,577	30,393	-0-	36,011	44,592	45,055
Total	124,755	89,774	85,813	110,564	120,364	122,804

*Affected by 1969 Flood.

Source: Golf Course Revenues and Expenditures, City of San Buenaventura (Revised November 1973), p.8.

Although there have been problems with flooding, examining only non-flood years, no rapidly increasing trend of number of rounds played per year is evident. The two publicly owned courses appear to be playing short of capacity (approximately 90,000 rounds per year).

Additional factors also do not point toward purchasing another golf course:

1. The City Council in Oxnard has already approved construction of a golf course (eventually 18 holes) practically within the sight of the two Ventura courses and within seven miles of the Saticoy course. This, along with the fifteen other courses in the county, should satisfy any additional golfing demand in the near future.
2. The Saticoy Course is only nine holes which makes it less attractive than eighteen hole courses. Therefore it would not have the tourist drawing capacity or tournament appeal that an eighteen hole course would. Even if there are eighteen tees (and only nine holes) there are much less possible rounds played because less people can be on the course at the same time.

The findings of this section lead to the conclusion that use of the property as a municipal golf course alone would not be feasible.

B. Development by Private Market

Another alternative is for the City to not purchase the property, thereby letting the private market develop the site. Presently the land has been re-zoned to R-1-7. According to the County Assessor this means single family residences of 7,000 square foot lots (medium density). A housing developer would build about 350 lots on the acreage. With this data, the amount of property tax revenue foregone can be approximated. If the market value of the houses are assumed to be $40,000, the yearly tax revenue foregone by

having the City purchase the site would be approximately $170 per house. This does not include any sales taxes or indirect taxes paid. However, the revenues forgone by the City in allowing the private market to develop the site should not be the only factors considered. The services (fire, police, streets, etc.) demanded by the population residing there would have to be accounted for as well. Unfortunately, the City's expenditures on a new housing development can not be determined à priori. The Planning Division feels that even if the houses were valued at $40,000 they would still fall short of the break even point when all services are taken into account.

The City Planning Division thinks that at the present time re-zoning land for commercial use (which would probably not be a net revenue loser) is unlikely. However, it should be pointed out that, in time, priorities could change.

Based upon what is admittedly rather imprecise information, it appears that the private development option would not produce positive net revenue for the City.

C. Development of Site for Parks and Recreation

At this point the City must make a choice. Should it make the investment of $985,000 which can be segregated into value as a golf course somewhere between $450,000-$660,000, and the remainder as premium for location or expected return (economic rent) for some other use. If it chooses not to invest it must be assumed that the private market will. The City would consequently lose the land as open space and also take the risk of allowing the land to be developed as a single family housing tract which would most likely be a net revenue loser for the City. If the City does choose to make the investment it must be prepared to pay on-going as well as initial costs. Since the taxpayer

must eventually bear the brunt of these costs, it follows that the city should utilize the site in the way which maximizes the benefits accruing to the same taxpayers. Obviously the City cannot and should not go into the real estate business and proceed to purchase all property zoned for single family residences because they are net revenue losers for the City. What justification, then, would there be for the City of San Buenaventura to make this acquisition? The City's Open Space and Conservation Element, adopted June 18, 1973, states that:

> "Research and analysis of available data indicates that the time to purchase land for future parks is within the next few years, not only because the cost of the land will undoubtedly rise, but also because as developments continue to occur, the opportunity for a truly outstanding park network will diminish. It is recommended that this objective is acknowledged as part of the City's five year capital improvement program. Objective 14 - To acquire a minimum of 400 acres of agricultural land within the planning area for future public park use to be financed by bond issue or other funding if available."[4]

The question of justification would be easily answered if it were possible to compare the costs of developing the site for use in parks and recreation with the benefits of a park to the community. Unfortunately, recreation benefits are difficult to measure and time available for this study did not permit a detailed study to determine their magnitude. As an alternative, the existing research is drawn upon.

Using the Saticoy Golf Course as the center, there are approximately 10,400 people (Census Tracts 13 & 14) within a 1 1/2 mile radius. It should be added here that 18% of those reside in unincorporated areas of the County. The average family size is greater than 4.0 (well above the average of 3.0). Forty-seven percent of the population in the two census tracts is less than eighteen years and 40% is less than fourteen years. Only four percent are older than sixty-two.[5] This seems to show that any recreation facilities constructed

in this area should be family oriented. Furthermore, the Planning Department states that presently throughout Ventura there is 10.2 acres of developed park per 1,000 persons. Existing recreation facilities within the 1½ miles radius surrounding the Saticoy Golf Course consists of two school playfields, a county park, a small community center, and a little league baseball field. This represents a total of 17.8 acres of park and recreation for an existing population of 10,400. Included in this area is not one tennis court, not one well maintained basketball court, little or no shuffleboard, volleyball, horseshoes as well as a minimal amount of well maintained tot lots, children's play areas, shady areas, handball courts and barbecue areas. For comparison, Table 4 shows the standard acreage for parks and recreation within a community.

Table 4

	Acres/1000 Population	Service Radius
Neighborhood Park	1½	¼ - ½ mile
Playground	1	¼ - ½ mile
Playfield	1½	1 - 1½ mile
Community Park	2	1 - 1½ mile
City-wide Park	5	Entire City

Source: Thor Olson, p. 1.

The County of Ventura Planning Department estimates that the area surrounding the Saticoy Golf Course, Census Tract 13 growing presently at 5.2% annually is one of the fastest growing areas in the county at this time. The Planning Division estimates further that between 70% and 80% of the new population in the Ventura metropolitan area will reside in the east end.

Even if the growth rate is only 3% per year (which is a much lower figure than has been used in the past), there will be an additional 40,000 people in the east end by the turn of the 21st century.

Because population density in Ventura has been heaviest in the west and coastal areas, almost all parks and projected park developments have been centered in these areas while virtually nothing definite has been planned or funds appropriated for the the eastside. However, in a study on Parks, Recreation, Cultural and Open Space Facilities it was noted that the eastside community could grow to 14,000, requiring a 20-25 acre park. In fact, the Saticoy Golf Course was suggested as a possible site and it was noted that existing amenities of trees and turf would reduce development costs. A sum of $650,000 was proposed to acquire and develop this site along with 1.9 million to acquire and develop two other east end sites.[6] Not including the City-wide park these standards recommend a total of six acres for each 1,000 people. This adds up to 62.4 acres of neighborhood parks for the existing population of 10,400. According to these figures, existing acreage falls short of the standard of 44.6 acres.

Based on the analysis of this chapter, it is concluded that developing the site for use for parks and recreation is the most viable of the three alternatives. For this reason, the next chapter focuses specifically on this option.

Chapter 4

ALTERNATIVES FOR USE IN PARKS AND RECREATION

If the city decides to develop the property for public recreation, a variety of recreation alternatives are possible. One condition imposed on the city is that it would have to purchase the entire parcel. A previous study recommended the following recreation alternatives: the City could develop all or part of the land for park and recreation use and and sell or lease the rest; or, the City could develop part of the land for parks and recreation and convert the golf course to a family-executive type course.[7]

A. Use Part of the Site for Parks and Recreation and Sell or Lease the Rest

This alternative appeared on the general plan of 1964. This plan showed approximately half the area as a park and the other half developed privately. The advantage of this alternative is that the City could use the money it received from the sale to finance improvements to the park. The City Attorney's Office indicated that, barring complications, the remaining land might possibly be re-zoned and commmand a higher price than the City originally paid. This plan would probably be least expensive for the City in the short run. It is, however, true that once the land is developed, it is gone forever for use as open space.

If instead the City chooses to develop part of the site and lease the rest, it could have the advantages of practically "instant park" now while not sacrificing the remaining land for future park use. An uncomplicated procedure for accomplishing this is an agriculture lease agreement. In most agriculture lease agreements a City purchases property and leases it back to a private individual for use in agriculture. According to the City Planning Division

Report on Park Standa

rds the return on the agriculture lease agreement would be approximately $20(

an acre per year. Assuming the 35 acres of park and 35 acres of agricultural

lease, the City could use this $7,000 a year to go toward maintenance of

the park. This plan also makes more sense than acquiring agriculture land for a

similar price in a nearby location and developing a park on it. Although

this solution would keep the land in the public trust until it was needed th

ere are a few disadvantages of such a plan. First, it seems wasteful to tear

up turf and trees now only to replant them a generation or so hence. Furthern

ore, we can look at the yearly returns necessary to make $500,000 investment (a

pproximately one-half of the total price of $985,000) financially feasible a

t different interest rates.

Table 5

	6%	7%	8%	9%	10%
30 Years	$36,3				
	24	$40,293	$44,413	$48,667	$53,039

Source: Webon,

Brigham. Essentials of Managerial Finance, p. 574.

The minimum figure is

still much greater than the expected yield of $7,000. For the agricultural

lease management to be beneficial, one must value the preservation of 35 ac

res of open space at a minimum of $29,000 per year ($36,000 - $7,000 = $

29,000).

Therefore if thi

s were the only way to keep the land in trust for future park and open space,

then it may be worth the price. There is, however, at least one further al

ernative the City should explore which combines the concept of a park on the eas

end and a revenue raising recreation activity with social value. It also woul

l leave the turf and trees intact and would keep the land in the public domain

for use as a park if needed.

B. Utilize the Area for a Combination Park and Par 3 Golf Course Complex

Although the aforementioned alternative may be viable, it does not take full advantage of the existing facility, the golf course itself. The option considered here would be to convert the existing nine hole course to a family type executive golf course. This course could be constructed on 30-40 acres and the remaining acreage could be used for the park and recreation complex. An executive course is the longest version of par 3 golf. It introduces the par 4 challenge, although a majority of holes offer a wide variety of par 3 shots.

Existing and future demand for a short course is difficult to determine until a facility is in operation. However, the following factors should be considered.

1. There is no existing family executive type course in the area.

2. The average short course of 9 holes requires less than 1½ hours to play a full round.

3. With other activities at the same location, (tennis, picnic, etc.), families would have greater opportunities to spend time together instead of staying home while the golfing member of the family goes out alone for the day.

4. Short courses have wider markets than do regulation courses, and the veteran golfer is likely to find it is an ideal practice facility. Also, beginners could learn golf more quickly and enjoyably on the short course than on a regulation course becuase they won't spend as much time looking for errant shots. Older and less active players could enjoy the short course when restrictions on physical activity prohibit the exertion demanded by the longer time and distances and more rugged terrain of some regulation golf courses. The City, in conjunction with the schools and college in the area, could give lessons during non-peak hours. For added revenue as well as a service, the City could rent clubs, bags, carts and even golf balls. It seems apparent that short courses

would complement rather than substitute the existing and proposed regulation golf courses in the area.

The conversion from the existing course to a short course could be done faster and at much less expense than construction of a new course. This could be done by utilizing the greens, tees, trees and fairways where possible. The total cost of conversion including relocation of four greens and five tees, using in-house labor and materials was estimated by the Parks Department at $15,000. Conversion could also be done without shutting down the course for any extended period of time minimizing foregone revenues. Furthermore, the conversion from golf course to park would be faster than converting agricultural land to park.

In addition to the conversion costs, there would be initial outlays for maintenance equipment. Table 6 presents estimates of initial costs.

Table 6

Conversion Costs		$15,000
Equipment		
Gang Mower	$11,000	
Tri-Plex	2,100	
Cushman	2,200	
Rotary Mower	200	
Truck	3,000	
Miscellaneous	1,000	
	$19,500	$19,500
TOTAL		$34,500

Source: City of San Buenaventura, Department of Parks and Recreation.

Any additional equipment could be borrowed from the other two courses.

As the old long golf course was phased out and the short course was phased in, the remaining parts of the park complex could be phased in as well. Estimates

of the total capital outlay for the par 3 course and construction of recreational facilities are presented in Table 7.

Operating Costs

Cost information in this section is taken from the Annual Budget, Parks and Recreation Department and from golf course maintenance crews. Many of the data are estimates but they are believed to be reliable.

Parks Maintentance -- According to information obtained from Parks and Recreation it takes one man to maintain seven acres of fully developed park; or $12,000 per ten acres per year. Thirty-five acres of park could, therefore, be maintained for a maximum of $44,100. However, because of the overlapping of duties and equipment in park maintenance and golf course maintenance, the Parks Department believes that the park portion could be maintained by two Groundsmen plus supplies for about $30,000 per year. Maintenance costs for the par 3 course are estimated at $41,450 per year including supplies (see Table 8).

Recreation Maintenance -- If the City decided to have a recreation center at the complex, the Parks Department estimated a cost of $13,000 per year for maintenance and operation.

To these figures must be added the additional costs of administration, programming and special facilities. The Parks and Recreation Department believes that this would cost approximately $15,000 per year for the combination park an golf course complex.

Given the estimates of operating costs, it is possible to estimate how many rounds of golf would be necessary to break even on the golf course. For simplicity, the following analysis assumes that operating costs are independent of the volume of rounds played and the number of park users.

Table 7

Cost Estimate for Park Construction

Engineering and Grading		$ 5,000
Parking and Access: Blacktop Overlay		10,000
6 Tennis Courts	$15,000/Court/Lights	90,000
Junior Play Area		10,000
Tot Lot		7,500
Sports Center for Court Games (Basketball, Volleyball, Hand-ball, Shuffleboard, Horseshoes)		20,000
Drinking Fountains and Restrooms		70,000
Barbecue and Picnic Areas		10,000
Misc. (Trash Cans, Backstops, Supplies)		7,500
Golf Course Conversion and Equipment		34,500
Landscape and Beautification		7,500
TOTAL		$ 299,200
Building rejuvenation	$20 per sq. ft. 10,000 sq. ft.	200,000
Swimming Pool and Locker Room		600,000
TOTAL		$ 800,000
+ 10% Contingency		80,000
TOTAL		$ 880,000
GRAND TOTAL		$ 1,179,200

Source: City of San Buenaventura Recreation and Parks Department. (Construction costs increase approximately 7% per year)

Table 8

Yearly Costs of Maintenance and Operation

Golf Course	
Labor - 2 Greenskeeper II @ $9,206	$18,400
1 Greenskeeper I @	10,900
Utilities	2,500
Telephone	250
Advertising	1,000
Office Supplies & Equipment	500
Maintenance of Equipment	2,000
Tools	150
Horticulture Supplies	4,000
Miscellaneous	1,750
Total projected yearly cost of Maintenance and Operation	$41,450
Park	
35 Acres @ 2 Groundsmen ($9,206) + Supplies per year	30,000
Total golf course and part maintenance	$71,450
Recreation maintenance	13,000
Other	15,000
Total yearly Maintenance	$99,450

Adopting the following notation:

C = Yearly Costs

F = Green Fee per Round

A = Additional Revenues from Other Sources (i.e., lessons, pro shop, etc.)

N = Number of Rounds Necessary to Break Even;

the number of rounds necessary to break even given the costs to be covered, greens fee, revenues from other sources is:

$$N = \frac{C - A}{F}.$$

For example, if costs of maintenance are $41,450, green fees are $1.25 per round and there is no additional revenue, the number of rounds necessary to break even would be

$$N = \frac{41,450 - 0}{1.25} \text{ or } \$33,160$$

Alternatively, if green fees are $1.25, park maintenance is $71,450, and $10,000 is received from other sources, the number of rounds required to break even is

$$\frac{71,450 - 10,000}{1.25} = \$49,160 .$$

Figure 3 shows that even with a minimal 100 rounds per day (at $1.25) or 36,000 rounds per year, the chances are very good that the short course would be operated on a self sustaining basis. The Parks Department believes that the course could average closer to 150 rounds per day or 54,000 rounds per year.

Figure 3

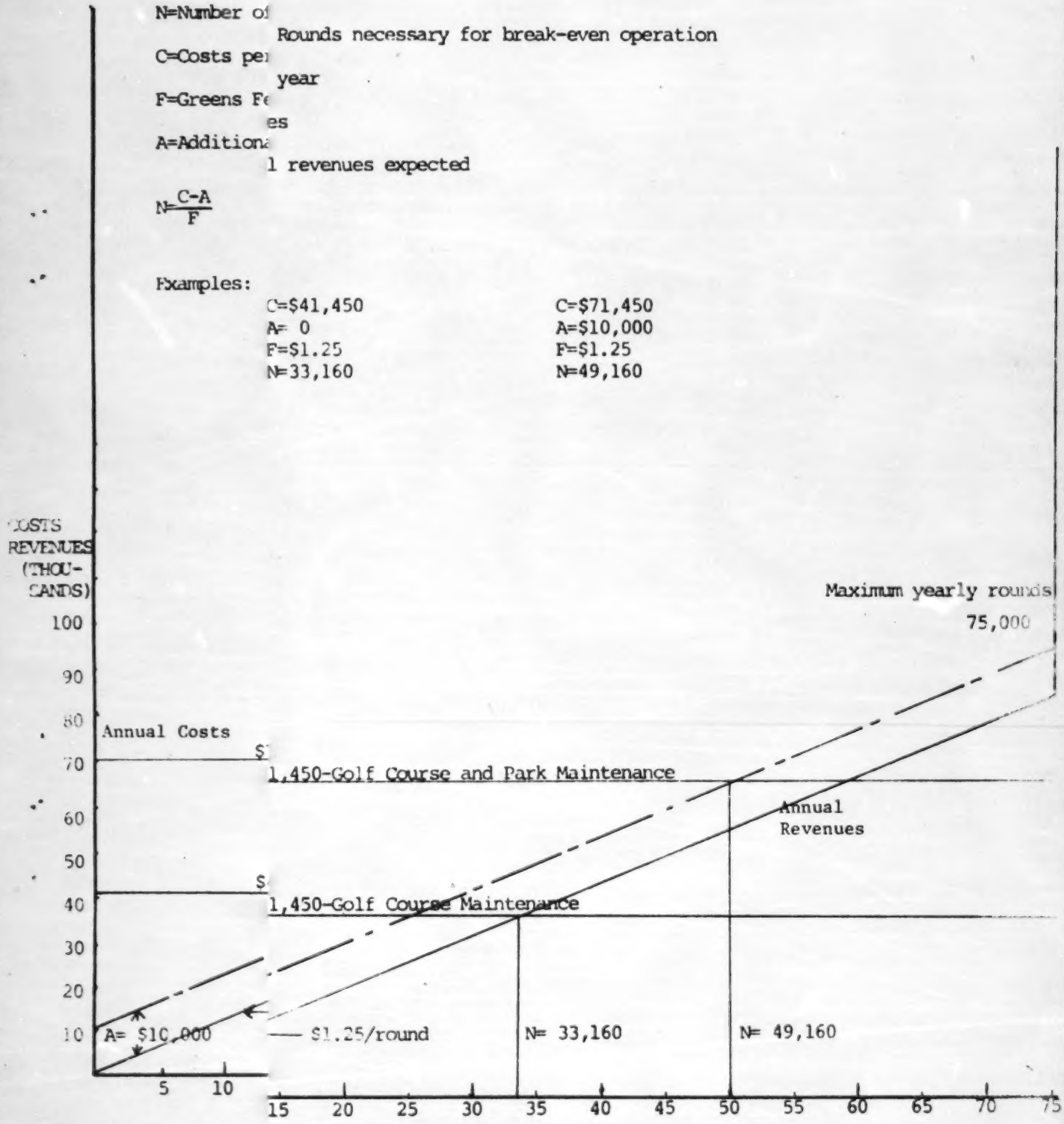
PAR 3 COURSE BREAK EVEN ANALYSIS

N=Number of
Rounds necessary for break-even operation
C=Costs per
year
F=Greens Fe
es
A=Additiona
l revenues expected

$$N=\frac{C-A}{F}$$

Examples:

C=$41,450	C=$71,450
A= 0	A=$10,000
F=$1.25	F=$1.25
N=33,160	N=49,160



The numbe
is indica
of yearly rounds necessary for the course to break even
ed where annual costs intersect annual revenues.

Investigation of Alternative Sites

Information regarding alternative acreage in the area is best obtained by contacting private realtors or the property owners themselves. To avoid giving false impressions of the City's intentions, this was not done in this study.

The County Tax Assessor's office is unaware of any other large parcels for sale at the present time. Furthermore, the assessor notes that if there was any property available, it would probably command a market price similar to the price of the Saticoy Golf Course. In addition, trees and turf already exist at this site and the greens and tees are available for conversion to a par 3 course. These facts should make the Saticoy Golf Course a primary site for acquisition.

Use of Building as a Community Center

In addition to the golf course, the City would acquire the clubhouse complex and other structures on the site, covering approximately 10,000 square feet. The buildings appear to be in need of extensive repair and the swimming pool may be beyond repair.

The county assessor quoted a figure of $20 per square foot to renovate the building as opposed to $30 per square foot to build a new building and about $1.30 per square foot to demolish it entirely.

In deciding how best to use the existing structures, one alternative the City should investigate is a community recreation center. Parks, Recreation and Facility Standards recommend one community recreation center to serve 15,000 people. This facility, located at the community park, would fit into the park standards plan for the population in the vicinity. Further, it should be noted that building costs have been increasing at about 7% per year. If, however, the City feels that it could meet the demands for a community recreation center on the east side in a more efficient way it does have the option of demolishing the building for $1.30 per square foot or approximately $13,000.[8]

Chapter 5

FINANCING ALTERNATIVES

This section summarizes a range of alternative methods for financing the recreational development option. These alternatives could be used separately or in conjunction with each other. These financing alternatives are discussed independently of any political considerations that may be attached to them.

Many economists recommend that public projects be financed according to the benefits principle--those who benefit by the project, pay for the project. This is the method by which activities are financed in the private market. Why not so in the public market?

A. Rationale for Public Provision of Recreational Services

To understand the rationale and conditions for government provision of recreational services above and beyond what private citizens are willing and able to provide, three key economic concepts must be examined: 1) recreational services as public goods, 2) recreational services as merit goods, 3) the government as least cost and/or most efficient producer.

Recreational Services as Public Goods

Up to the point of congestion, additional people may enjoy parks and other recreational facilities without diminishing the enjoyment that others receive from the park. In such cases, the park is a pure public good, as opposed to a private good where one person's consumption inherently limits the total amount available for others to consume. In private goods markets, prices determined by supply and demand are rationing devices. Individuals are therefore forced to reveal their true preferences as to how much they are both willing and able to pay for a given good or service. However, to the extent that conditions of joint consumption exist, no individual has an incentive to reveal his true

preferences for a public good or service if he believes others will provi e it. In the case of a park, once the facility is built, under normal circu m- stances, individuals cannot be excluded from using it.

Recreational Services as Merit Goods

Even though the price system, or a system of user charges, may alloc te economic resources efficiently, it does so in a manner that society feels is "equitable." Merit goods are goods which society views as being underpro uced if left to the private market. Examples of merit goods are museums, lib aries and recreational services. A community may therefore decide to produce r crea- tional services in order to attain distributional goals.

It may, in practice, not be desirable to exclude people by letting t e private market set prices or by imposing user charges even where it is te hni- cally possible to do so. This is true if individuals, faced with a money price, choose to consume less recreational services than is considered socially esir- able. User charges or market prices could result in a very regressive "t x structure" by charging everyone the same price regardless of income.

Least Cost of Most Efficient Producer

Part of the rationale for public production is supplied by the costs of exclusion. Fences, walls and tollgates at neighborhood parks are expensi ve means of excluding those who cannot or do not wish to pay an established user fee. Furthermore, there is no economic rationale for charging user fees when there is no congestion. Once the park is built, it may be less costly to allow all those to enter without an explicit charge. In addition, part of the enjoyment of a park is its unfenced nature. Therefore, because governmen ts have other means of financing facilities, e.g., taxes, the majority of park us e is not financed through user charges. If park use was financed mainly throu gh user charges there would be more private parks or more fenced in public arks.

Another important consideration is not all benefits from recreational facilities and parks accrue to the users. Benefits such as increased land values, desirability of land in the proximity, lower crime rates and aesthetic value accrue to society as a whole. It is seldom, if ever, possible to assess fees against non-users for these spillover benefits or positive externalities they receive.

In pricing recreational services, therefore, one must keep these elements in mind and charge user fees where applicable.

B. Financing Options

User Fees

Prices or user fees lend themselves most favorably to activities where beneficiaries can be easily identified and income redistributive effects are negligible. In the recreation complex considered here, the par 3 golf course seems to fit this description. Fees charged here could exceed those necessary to maintain the course itself.

A rule of thumb in setting fees would be to match the fees charged at other (competitor) facilities. This is currently about $1.25 per round. If 54,000 rounds per year were played on the course (the Parks and Recreation Department estimate), green fee revenue would exceed $67,000. This would cover estimated golf course maintenance and operating costs and almost 90% of maintenance costs for the park.

Other natural revenue raisers on a golf course could be a 25-50 cent reservation charge, golf lessons, pro shop concessions, food and beverage concessions, club, cart and ball rental fees and driving range fees.

In addition to the golf course, reservation fees are applicable to other areas of the park such as barbecue areas, tennis courts and lawn bowling. Other suggestions are:

1. Reservation fees should only be charged during peak periods like

weekends and holidays. This concept is known as efficiency pricing to limit congestion and encourage use of facilities during non-peak hours. This same concept is used by the telephone company and economists are urging it for public uses as well.

2. There could be free facilities for those who would not mind waiting and fee facilities for those who would rather not wait.

3. The City could have tournaments and exhibitions on the tennis courts. Fees are applicable here. This would also help publicize the facilities of the entire park.

4. Charges for lessons and classes could be charged as per other parks and recreation programs.

Although one cannot accurately estimate how much revenue user fees would generate, it should be noted that in 1967, 15% of national parks and recreation expenditures were financed by user fees and charges.

C. Other Financing Options

Although user fees cannot completely finance all government undertakings, this does not imply that they should not be undertaken. However it does emphasize the importance of determining what alternative methods are to be utilized in financing the difference between user fees and expenditures. These methods can be divided into three categories: 1) taxes and Parks and Recreation Development Funds, 2) borrowing, and 3) outside financing.

Taxes

According to the 1973-74 Budget a 1 cent increase in property tax rates would generate an extra $17,000 per year. Therefore property taxes would have to be increased nearly $.60 per $100 of assessed value to finance the purchase of the site. According to the director of general sources, such a tax rate

increase would be prohibitive and the purchase of the site would have to be financed by alternative means. However, maintenance and operation of the site must be paid for out of the general fund. Table 8 shows total maintenance to be $98,450 per year, including golf course maintenance and operations of $41,450. Assuming the golf course was self-supporting the City would need to raise property taxes more than 3 cents to make up the difference of $57,000 for park and recreation maintenance. This would be difficult politically and illegal under provisional Senate Bill 90 without approval of 51% of the voters.

Park and Recreation Development Fund

Revenue for this fund is derived from a bedroom tax levied on each new dwelling unit at the rate of $70 for each unit with one bedroom and $35 for each additional bedroom and $100 for each mobile home pad. These revenues are designated for use in the planning, acquisition, improvement or expansion of public parks, playgrounds or recreational facilities. Forecasts of projected revenues made by the planning department were based on the following assumptions.

1. A compound population growth rate of 3% per year.
2. A population per household of 3.0.
3. 2.5 bedrooms per dwelling unit.

In 1975 the park and recreation facility tax would bring in an estimated $95,000, increasing about 3% per year.

The above means of financing (user fees, taxes, and Park and Recreation Development Fund) may be used for bond service as well as for maintenance and operation. The discussion now turns to those avenues open to the City for making large purchases and capital improvements.

Borrowing

1. General Obligation Bond -- The City could issue a General Obligation Bond to cover acquisition and improvements. A $2 million bond sold at 6% will

cost the City about $1
50,000 per year for 25 years. This cost would have to be paid by taxpayers i
n addition to maintenance and operation costs. Since 1965 19 out of 40 gene
ral obligation bond issues which require a 2/3 majority, have been approved in
California for parks and recreation.

The City is plann
ing such an issue in 1974 for approximately $4,000,000. As mentioned above, th
is project fits in well with the planning departments open space plan and co
nservation element. The Saticoy Golf Course acquisition could be a high priori
ty item to be financed by this bond issue.

2. Revenue Bond
-- Revenue Bonds require a simple majority for passage; however it would proba
bly be difficult to convince the municiple bond market that revenues generate
d from an unproven par 3 golf course and recreation complex could warrant
a reasonable interest rate.

Outside Financing

1. Because 18.1%
of the area in the immediate vicinity is populated by County residents (non-
incorporated) and because people living in unincorporated as well as incorporate
d areas receive benefits from the park, the City should consider becoming part
of a regional park and recreation district. Presently the county has commiss
ioned a study to investigate the feasibility of such a district. Even if thi
s district is not formed the City should consider requesting aid from th
e county.

2. State Bond --
On August 15, 1972, Governor Reagan signed into law AB 392, the State Bea
h, Park, Recreation and Historical Facilities Bond Act of 1974. This act requi
es a majority of the people and authorizes the issuance of $250 million in bo
nds to provide funds to acquire and establish beaches, parks, recreational facilitie
s and historical resources. It will be submitted to the voters as proposition
one in June 1974. Of the $250 million $90 million will be available to citie
s, counties and districts for acquisition and development of recreational, park
s and historical areas and facilities. It is estimated

that Ventura County will get $2,037,368. At such time when the City meets with the County, it could list the Saticoy Golf Course acquisition as a high priority item.

3. Federal Assistance -- The City should investigate the use of Federal funds in the form of General Revenue Sharing, Special Revenue Sharing and funds from the Land and Water Conservation fund program. Under General Revenue Sharing, the City is entitled to receive an accrual amount based on its per capita income and net taxes collected, relative to other local governments in the state. The City must use these funds for "high priority expenditures". One of the high priority items listed is maintenance and operating expenditures for Recreation.

Special Revenue Sharing may be another source of Federal aid. If enacted, the bill would provide $2.3 billion of shared revenue during the first year (July 1974-July 1975) to cities, counties and states for community development. According to preliminary figures released in April, 1973, the Department of Housing and Urban Development estimates that Ventura would receive approximately $1.3 million for fiscal 1974-75. Some of these funds could be used for development of the park and recreation facility at the Saticoy Golf Course.

4. Land and Water Conservation Fund Program -- One of the priorities listed for Planning District 1, to which Ventura belongs, is for areas that will provide a wide variety of recreation uses for a broad range of age groups. Projects in this category include the acquisition and development of multi-purpose recreation areas to meet the regional needs of local population. These funds are reimbursed funds only. The City must therefore finance 100% of the project and if approved by the Federal Government, will be reimbursed up to 50% of the expenditure. (The deadline for filing applications for 1974-75 Land and Water Conservation Funds is July 1, 1974.)

These are the major sources the City should tap if sincerely nterested in pursuing any policy of preserving open space and recreation areas in general and in developing the Saticoy Golf Course in particular.

Chapter 6

SUMMARY AND CONCLUSIONS

The first step in the preceeding analysis was to see whether the Saticoy Public Links could be purchased and profitably leased to a private operator. The answer to this query was negative. Then, acquisition and city operation as a municipal course was studied on the basis of need for another golf course in the area. Because of the relatively small return, the lack of significant increase in golf demand, and the capability of the fifteen other courses in the area, including Oxnard's newly planned municipal course, to absorb any increases in the golf demand, it was concluded that it would not be worthwhile for the City to operate the site as a golf course alone.

The last alternative studied was use of the site for recreational development. Needs for additional public recreation facilities were examined by considering future population and projected parks in the area and present population and present parks in the area. The conclusion was that about 44.6 acres of park are needed to meet the needs of the existing population.

It was finally concluded that since the per acre price of the site is equivalent to prices of other parcels of land nearby, and since natural amenities of full grown trees and turf would make an easier and quicker conversion to park land than other land, the Saticoy Golf Course should be purchased for use by Parks and Recreation.

The most favorable option for recreational development appeared to be the development of an executive family type golf course on part of the land and a park-recreation complex on the other. The revenues generated by the short course would be greater than those from an agriculture lease back program and would keep the land from being developed.

A consideration of financing alternatives showed that the City most likely could finance the project from a general obligation bond in 1974. However, it should also attempt to get federal and state aid where possible. Since County residents live near the facility and would use it, the City should consider requesting financial participation by the County.

FOOTNOTES

[1]See Appendix A.

[2]According to the City Attorney, a concessionaire could sell liquor on the premises.

[3]Robert De La Cruz, Feasibility Study for Oxnard Golf Course, City of Oxnard, 1973.

[4]Thor Olson, "Parks and Recreation, Cultural and Open Space Facilities." p. 35, City of San Buenaventura, 1971.

[5]U.S. Department of Commerce, 1970 Census of Housing Oxnard-Ventura-Thousand Oaks Calif. Urbanized Area. October 1971.

[6]Thor Olson, "Parks and Recreation, Cultural and Open Space Facilities, p. 35, City of San Buenaventura, 1971.

[7]Memo by Assistant to the City Manager, February 8, 1972.

[8]Another set of alternatives would be to lease the building to a commercial enterprise. An expanded version of this study showed that the expected return from leasing the building to a quality restaurant would probably be sufficient to cover renovation costs. See William Lee, Saticoy Golf Course Acquisition Study.

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APPENDIX A

Present Value

The concept of present value is of critical importance in decision theory. However, it is all too often overlooked by organizations, private as well as public. When overlooked it can lead an organization to make less efficient decisions than could otherwise have been made.

Finding the present value of an investment is the reverse operation to finding compound interest. Suppose one deposits $1,000 in a bank at 4% interest compounded annually. At the end of the first year the balance would be $1,040. If the money were left in the account for four more years, the balances are:

Year	Beginning	Interest Rate	Ending
1	$1,000	1.04	$1,040
2	$1,040	1.04	$1,082
3	$1,082	1.04	$1,125
4	$1,125	1.04	$1,170
5	$1,170	1.04	$1,217

At the end of five years the balance would be $1,217.

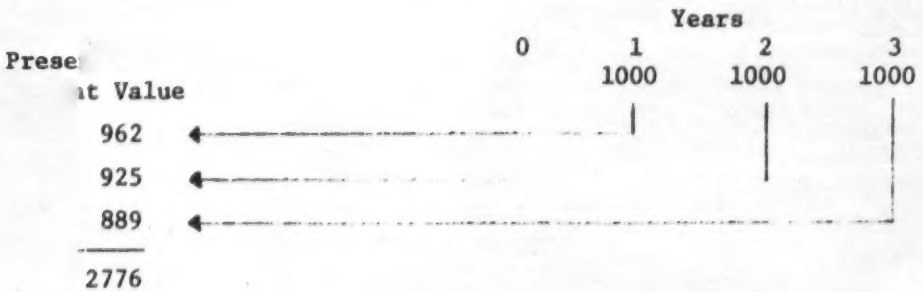
Suppose, now, that the alternatives of either $1,217 at the end of five years or $1,000 today (given that a 4% interest rate is the highest return available) are offered. One would be indifferent between the two, assuming that the money would be paid in full. Since the values of the two alternatives are equal, $1,000 is defined as the present value of $1,217 paid five years hence, when the applicable interest rate is 4%.

This situation is analogous to investing $1,000 in a project today for a lump sum return of $1,217 in five years. Assuming that 4% is the opportunity cost (the highest return available) and the project life is five years, if the final payoff was greater than $1,217 the investment should be undertaken; if it

was less, the
it should not.

Similar
easoning can be applied to a constant annual income stream for a given number
of years (annuity) rather than a lump sum payment at the end of the time per
iod.

Suppose an
individual is given the choice between a lump sum payment today or $1,000 a yea
r for three years given a 4% interest rate. How much must the lump sum paymen
t be to make it equivalent to the three year annuity? The logic is as follows:
What lump sum payment today is worth the same as $1,000 in a one year's time
given a 4% interest rate. The answer is about $962. The same for years two a
nd three. Summing the three amounts of the value $1,000 in one year, $1,000 in
two years, and $1,000 in three years the lump sum today that would be equiva
lent to a three year annuity of $1,000 per year is calculated.



Another wa
to look at the same example is that $2,776 could be deposited in a bank accou
nt today paying 4% interest, and $1000 withdrawn at the end of each year for t
he next three years. At the end of the three years, the balance in the account
would be exactly zero. Using this same principle the yearly return necessar
y to make an investment financially feasible can be calculated.

For exampl
e, in the case of the golf course, assume the original investment is $1,000,000.
At an interest rate of 9% the yearly return required to equate revenues and co
sts over a thirty year period is $97,333. Anything greater than

$97,333 would be profit, anything less would make the project not self sustaining.

To repeat, if the City invests $1,000,000 and wants to determine the annual rate of return necessary to make the investment financially feasible, it must not simply figure that a $1,000,000 investment will be paid off in twenty yearly payments of $50,000 each. This "payback period method" would vastly underestimate the revenues needed to make the investment project a self sustaining one. The City must realize for this investment, as well as any investment public or private, that the opportunity cost of money (the interest rate) must be accounted for. If the City had $1,000,000 in cash and did not invest in a golf course, it could earn a postitive return by loaning the funds i.e., a U.S. government bond. If the City had to borrow the $1,000,000, it would have to pay interest or it would cost that much to borrow the money. $1,000,000 compounded at only 6% per year will be worth $3,205,000 in twenty years. In order to recover the entire $1,000,000 investment which in twenty years is still not worth $1,000,000, but $3,205,000, the City would have to realize an annual return of $87,185, which is substantially more than $50,000. To repeat, if the City does not take the opportunity cost into effect, it will vastly underestimate the revenues needed to make an investment profitable.

When using these methods one must be cautioned that only quantifiable revenues are being estimated. No attempt is made here at quantifying social benefits.

APPENDIX B

Miscellaneous Recommendations

Hiring a Golf Course Architect -- The City may want to consider hiring a golf course architect to assist it in converting the existing course to a short course. An architect could offer suggestions on how to minimize the cost of moving the greens and tees, while maximizing the useful area for the park. The National Golf Association regards the fee paid to the architect as insurance against the headaches and added future costs that inept planning and design can bring.

Driving Range -- Because the short course is a practice facility, a driving range would be complimentary. When deciding whether or not to include a driving range, the City should note that a driving range would probably increase the play of the course.

Park Activities Meetings with the Parks and Recreation Department have been helpful in compiling this list of desirable activities for a community park on the east end:

6-8 Tennis Courts with space set aside for more if necessary. If these courts were of high quality, they could attract tournaments and exhibitions.

Junior Play Area

Tot Lot

Court Area with basketball, volleyball, tetherball and handball courts. One of the volleyball courts could be on sand.

Open Field with portable backstops. These areas can be used for softball leagues if necessary.

Picnic and Barbeque Areas

Plenty of walking paths, landscaping and beautification, restrooms, drinking fountains and trash cans.

Swimming Pool This may be an option for a later date but should be considered at the site.

Community Center This could serve not only as headquarters for recreation activities but as a teen center and day care center which is required by the population of the surrounding area.